STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

FOCAL COMMUNICATIONS CORPORATION OF ILLINOIS	)	
Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Illinois Bell Telephone Company d/b/a Ameritech Illinois	)	**Docket No. 00-0027**

VERIFIED STATEMENT

OF

ERIC L. PANFIL

On Behalf of
AMERITECH ILLINOIS

February 7, 2000

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Eric L. Panfil. My business address is 2000 W. Ameritech Center Drive, Hoffman Estates, Illinois 60196.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Ameritech Services, Inc., as Director - Local Exchange Competition Issues.

Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES IN THAT POSITION?

A. I am responsible for issue analysis and policy development across all aspects of the evolving competitive environment for local exchange services in both the state and federal jurisdictions.

Q. HOW LONG HAVE YOU BEEN AT YOUR PRESENT POSITION?

A. I have been in my present position since October 1997.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY RELEVANT TO YOUR DIRECT TESTIMONY.

A. I have been a member of the Regulatory and Public Policy Organizations at Ameritech (including its predecessor and subsidiary companies) since 1982, when I assumed responsibility for development of interexchange carrier switched access tariffs. At various times since, I have been responsible for policy development, issues analysis, tariff development, tariff interpretation, rate and cost development, demand analysis, and imputation analysis for carrier switched access (in both the federal and state jurisdictions), cellular carrier interconnection, payphone service, competitive carrier interconnection, and network unbundling. Prior to 1982 I worked in the Information Systems Department, where I held program design and coding, systems design, project management, and software support management positions

I have previously testified in Illinois on behalf of Ameritech Illinois on numerous occasions over the past 15 years, most recently in Consolidated Dockets 97-0404, 97-0519, and 97-0525, which were complaint proceedings regarding the applicability of reciprocal compensation arrangements to ISP traffic under the terms of certain interconnection agreements. I have also testified in proceedings before the Michigan, Ohio, and Wisconsin Commissions on numerous issues, including interconnection and reciprocal compensation arrangements.

Q. PLEASE IDENTIFY WHICH OF THE ISSUES RAISED BY FOCAL'S ARBITRATION PETITION THAT YOU WILL ADDRESS IN YOUR DIRECT TESTIMONY.

A. I will address Issues 1, 2, and 4.

Issue 2: **Should dial-up calls to Internet service providers ("ISPs") be treated by the parties as if they were local and subject to reciprocal compensation for purposes of inter-carrier compensation?**

Q. DESCRIBE YOUR UNDERSTANDING OF FOCAL'S POSITION ON ISSUE 2.

A. I understand Focal's position to be that reciprocal compensation, at the same rates applied to local traffic, is appropriate for ISP access traffic. Focal claims that "By terminating traffic on Focal's network, Ameritech causes Focal to incur costs. Absent the ability to recover from Ameritech inter-carrier compensation for ISP-bound traffic, Focal will be unable to recover the costs it incurs when carrying ISP-bound traffic originated on the Ameritech network." (Starkey p.16)

Q. WHY SHOULD THE COMMISSION REJECT FOCAL'S PROPOSAL?

A. In the first instance, the Commission should decline to entertain Focal's proposal because the FCC has exclusive jurisdiction over ISP access traffic, which is predominantly interstate. Indeed, the Commission, in its Reply Comments to the FCC in CC Docket 99-68 (at pages 2-6), stated that assuming the FCC does not reconsider its ruling that ISP-bound traffic is predominantly interstate (which the FCC has not done), it supported "Proposal Two" of the FCC's Notice of Proposed Rulemaking (under which "the FCC would adopt a set of federal rules governing inter-carrier compensation for ISP-bound traffic . . . with any resulting disputes settled by a federal arbitration process") and

recommended that the FCC not adopt "Proposal One" (which "would allow carriers to determine compensation through private negotiation or, if these negotiations fail, through arbitrations conducted by state commissions under sections 251 and 252 of the Act"). The Commission should in this case heed its own recommendation to the FCC and should leave the determination of inter-carrier compensation for ISP-bound traffic to the FCC.

If, however, the Commission is inclined to explore the merits of this issue due to some continuing uncertainty over the jurisdictional situation, the Commission should find that there are two major flaws in Focal's proposal. The first is that it asserts incorrectly that costs incurred by Focal in delivering calls to its ISP customers are caused by Ameritech rather than by the ISP's provision of service to its end user, and that Ameritech Illinois should therefore be required to compensate Focal for its costs (and by extension, must recover those costs from its end users through basic local exchange service rates). The second is that it asserts incorrectly that the reciprocal compensation rates developed by Ameritech Illinois in compliance with Commission orders are representative of the cost incurred by Focal in delivering calls to its ISP customers.

Q. HOW DOES AMERITECH RECOMMEND THAT THE COMMISSION ADDRESS THIS ISSUE?

A. Ameritech Illinois recommends that the Commission recognize the exclusive federal jurisdiction of the ISP access traffic, and that it then approve the interconnection agreement provisions proposed by Ameritech Illinois which exclude ISP traffic from the reciprocal compensation arrangements applicable to local traffic, consistent with the

FCC's determination that ISP traffic is not local. The determination of inter-carrier compensation arrangements for ISP traffic would then be left to the FCC in its pending rulemaking docket on that issue. If, however, the Commission feels it has both the authority and the duty to address the treatment of ISP traffic during the interim period preceding the FCC's ultimate ruling, it would be most proper to simply require the parties to agree to retroactive application of the FCC rule on inter-carrier compensation.

Finally, should the Commission feel compelled to address on a policy basis the issue of interim treatment of ISP traffic despite the fact that it will likely be supplanted in the near future by the FCC's ultimate ruling, I offer the following recommendations regarding the manner in which Ameritech Illinois believes the Commission should approach and decide this issue.

Q. WHAT IS THE KEY TO UNDERSTANDING THE SIGNIFICANCE OF THIS ISSUE AND PROPERLY ADDRESSING IT ON A POLICY BASIS?

A. In order to understand and address this issue, the Commission must first confront the fundamental policy question that has not yet been clearly and explicitly addressed by the FCC in its orders and statements regarding dial-up Internet access. That question is: which party should be responsible for the costs caused by dial-up access to the Internet over the circuit-switched voice network, in order to produce the most economically efficient and publicly beneficial development of the public network(s)? Should the costs be the responsibility of the ISP (which would be able to exercise some control over those costs through its choice of serving arrangements, and could add those costs to its many

other costs of providing Internet access to its end user customers and recover those costs either directly from its end users or from ancillary revenue sources such as advertisements displayed to its users), or should the costs be the responsibility of the general body of end users (who would have to cover those costs through their basic local exchange service charges).

Dr. Robert Harris, in his testimony filed on behalf of Ameritech Illinois in this proceeding, provides an extensive analysis of the economic and public policy impacts of each of these two options, and concludes that the assignment of those costs to basic local exchange service (as recommended by Focal) rather than to the ISP would result in a number of undesirable consequences.

Q. WOULD THE POLICY RECOMMENDED BY AMERITECH CONFLICT WITH ANY CURRENT POLICY DIRECTIVES OF THE FCC?

A. Not at all. I believe that Ameritech Illinois's recommendations are entirely consistent with the FCC's policies, and that Focal's recommendation represents a distortion (perversion) of those policies to an end that is decidedly not in the public interest. While the FCC's treatment of the "ESP exemption" issue over the years has certainly not been a model of clarity, I do not recall any point at which the FCC has even hinted that increases in the basic local exchange rates paid by end users should be impacted by the arrangement. To my knowledge, the FCC has always referred to the business rates paid by the ISP as being a substitute for the access charges that would otherwise be applicable

to the ISP. The last time the FCC addressed the exemption issue, in its Access Reform Order, the FCC stated:

> 346. We also are not convinced that the nonassessment of access charges results in ISPs imposing uncompensated costs on incumbent LECs. ISPs do pay for their connections to incumbent LEC networks by purchasing services under state tariffs. Incumbent LECs also receive incremental revenue from Internet usage through higher demand for second lines by consumers, usage of dedicated data lines by ISPs, and subscriptions to incumbent LEC Internet access services. ***To the extent that some intrastate rate structures fail to compensate incumbent LECs adequately for providing service to customers with high volumes of incoming calls***, incumbent LECs may address their concerns to state regulators. [emphasis added]

In my view, that statement by the FCC reflects the FCC's belief that the tariffed business rates paid by the "customers with high volumes of incoming calls" (i.e. the ISPs) are expected to cover the cost of such traffic, as well as a bias that any changes to intrastate rates that might be needed should be targeted to the business line rates paid by the ISPs, not the rates paid by end users (as Focal suggests would be appropriate -- see Starkey testimony at pages 35-37, particularly page 36 line 22 and at page 39 lines 4-7).

Q. WHAT IMPACT HAS THE GROWTH OF INTERNET ACCESS HAD ON THE VOLUME OF TRAFFIC CARRIED OVER AMERITECH'S NETWORK?

A. Within Ameritech, our Network organization has undertaken periodic studies of non-IXC traffic on the network in order to aid in the network and business planning process. Those studies confirm the overwhelming impact of dial-up Internet access on the growth of traffic on the circuit-switched network. In Illinois, between March 1997 and October

1999 non-Internet minutes of use grew about 2.3% (with 100% of that growth coming from business subscribers; for residential subscribers, non-Internet minutes in October were virtually identical to the 3.26 billion minutes in March 1997), while Internet access minutes grew over 450% (477% for residential subscribers alone, from 0.33 billion to 1.9 billion). Looked at another way, of the total growth in minutes for the two-and-a half-year period, over 95% of the additional minutes (and 100% of additional residential minutes) were Internet access minutes. The bulk (over 80%) of the minutes and growth are generated by residential subscribers rather than business subscribers -- and not by the vast majority of residential subscribers but rather by only about 25% of residential subscribers (as of March 1999), with a mere 5% of residential subscribers generating two-thirds (67%) of those residential Internet access minutes.

Q. IS THIS GROWTH EXPECTED TO CONTINUE?

A. While it's impossible to predict the precise growth pattern, there is no sign that tremendous growth in dial-up traffic will not continue. AOL, the dominant ISP in the U.S., has continued to experience growth not only in customers, but in average usage levels of its customers as well. AOL's average usage per user has grown from less than 40 minutes per day in mid-1997 to over 60 minutes per day currently. I have seen nothing in either the general press or industry publications suggesting a drastic decrease in the rate of growth of Internet traffic.

Q. IS THIS GROWTH IN USAGE ACCOMPANIED BY GROWTH IN LOCAL SERVICE REVENUES?

A. Not to any significant extent. While the minority of Internet access traffic that originates on business lines does generate additional revenues, the "per-call" rates that apply to local residential calls generate little additional revenue related to Internet access traffic, due to the extremely long hold times typical of Internet access calls. In October 1999 the average duration of an Internet access call in Illinois was 26 minutes, while the average hold time of all other calls was 3-1/2 minutes. Since the per-call rates for local residential calls were set many years ago, when the average call was more like 3-1/2 minutes than 26 minutes, they are obviously inadequate to cover the costs of all of the Internet access calls originated by residential customers (which, as I noted above, represents 100% of the growth of residential usage over the last 2-1/2 years).

Q. ARE AMERITECH'S COSTS OF ORIGINATING DIAL-UP INTERNET ACCESS CALLS IN ILLINOIS CURRENTLY RECOVERED IN THE LOCAL EXCHANGE RATES PAID BY THE SUBSCRIBERS THAT USE THOSE SERVICES?

A. No, they are not. In April of last year, I performed an analysis of this issue (attached as ***[[Exhibit EP-01]]*** hereto) which was filed with the FCC as part of Ameritech's comments in Docket 99-68 (the FCC's NPRM on Inter-Carrier Compensation for ISP-Bound Traffic). In the interests of both conservatism and simplicity, the analysis was limited to the modeling of customers (both residential and business) that have purchased

an additional line dedicated to Internet access. For Illinois, the analysis demonstrates a shortfall (revenues less than costs) of $9.07 per month per line used to access the Internet, even if Ameritech Illinois (and its end user) is not also required to cover the cost of switching at the switch that serves the ISP as part of the cost of basic local exchange service. Obviously, should that additional switching cost also be considered to be a cost of basic local service, the shortfall would become significantly larger.

I have also attached two revised versions of the Illinois page to this testimony. The first revised version ***[[Exhibit EP-02]]*** reflects changes to the end office switching and tandem switching costs to reflect the long hold times of Internet access traffic, which I further discuss below. In this revised version, the shortfall (revenues less than costs) is $1.88 per month per line. The second revised version ***[[Exhibit EP-03]]*** reflects those same cost changes, and limits the analysis to only residential customers. In this second revised version, the shortfall (revenues less than costs) is $8.48 per month per line.

Of course, the situation is made even worse to the extent residential customers connect to their ISP using their single primary line, rather than an additional line. Given the per-call rates for local calling in Illinois, there are obviously not revenues adequate to cover the additional costs of ISP access calls made by such customers. The cost of originating and transporting an Internet access call (again, not including the cost of switching the call at the switch serving the ISP) is about 7.6 cents, which is 85% greater than the average revenue of about 4.1 cents per residential call.

Q. HOW DOES AMERITECH PROPOSE THAT THE COMMISSION DECIDE THIS ISSUE?

A. First, it is absolutely clear that the FCC has determined that ISP calls are not local calls and are ultimately subject to a separate compensation arrangement to be determined by the FCC. At minimum, the parties should be required under the agreement to explicitly identify all ISP traffic to the best of their ability. The Commission should then determine its policy regarding the applicability of inter-carrier compensation during the period preceding the FCC's ultimate decision on this issue. I have the following recommendations as to how the Commission should proceed in establishing its policy, in order of appropriateness.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION, SHOULD IT DECIDE TO ADDRESS THE ISSUE ON A POLICY BASIS?

A. The Commission should decide as a policy matter, based on my testimony and especially on the testimony of Dr. Harris, that the ISP's LEC should recover its costs from the ISP, and therefore that pending the FCC's ultimate policy decision in this matter, no compensation should be paid to the ISP's LEC by the originating end user's LEC under the agreement between Focal and Ameritech Illinois.

Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS?

A. It is conceivable that the Commission may believe that a transition is necessary for the implementation of this policy (by either the Commission or by the FCC), given that

LECs have to date been receiving inter-carrier compensation for the costs that should properly have been recovered from the ISPs. In that case, I recommend parameters that the Commission should consider in establishing the three main elements of a transition, and further recommend that a revenue-based cap be placed on any compensation payments made during this transition.

Q. WHAT ARE THE THREE MAIN ELEMENTS NECESSARY TO DEFINE A TRANSITION PLAN?

A. Three main elements that must be decided in order to effect a transition arrangement are the ending point, the starting point, and the duration of the transition. The frequency of adjustment (e.g. monthly or quarterly) is a relatively minor additional issue, and I assume as a given that the rate of adjustment will be linear over the duration.

The end point, of course, must obviously be that no compensation be paid.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION AS TO DETERMINATION OF THE STARTING POINT OF A TRANSITION?

A. The starting point should be no more than a properly designed estimate of the cost incurred by the LEC serving the ISP in switching calls on behalf of its ISP customers.

Q. HOW SHOULD FOCAL'S COST FOR ISP CALLS BE DETERMINED FOR THE TRANSITION?

A. For consistency and ease of administration, it should be based on Ameritech Illinois's cost study data for reciprocal compensation, as filed with the Commission in compliance with the Commission's orders. Those costs probably overstate CLEC costs for handling Internet access traffic due to their ability to adopt technologies that handle data traffic more efficiently than traditional circuit switches (see for example ***[[Exhibit EP-04]]*** attached hereto, in which Level 3, a CLEC that is focused on Internet Protocol networking, states that it employs switching technology that costs 40% less than typical LEC switching). However, Ameritech Illinois's costs represent a reasonable starting point given that Focal indicates that it currently uses typical circuit-switched end office switching equipment in its provision of connections to ISPs. Obviously, this assumption should be revisited should Focal institute a change in its serving arrangements.

Q. DOES THAT MEAN THAT THE RATES CURRENTLY USED FOR RECIPROCAL COMPENSATION FOR LOCAL CALLS SHOULD BE USED AS THE SURROGATE FOR FOCAL'S COSTS?

A. No, it does not. It is critically important that those costs be properly applied to ensure that there is no systematic overstatement of costs, which would result in overcompensation of the LEC serving the ISP. The two factors that must be properly applied to achieve a reasonable result are first, to properly meld the cost data to reflect the longer holding times of Internet access calls, and second, to ensure that only end office switching costs, without the addition of "phantom" tandem switching or transport costs, are considered to be relevant costs of delivering Internet access traffic to an ISP.

Q. HOW SHOULD END OFFICE SWITCHING COSTS BE PROPERLY MELDED TO ACCOUNT FOR THE LONG HOLDING TIMES OF INTERNET ACCESS CALLS?

A. The per-minute rate developed for reciprocal compensation end office switching is actually a composite of two separate cost streams. The cost of switching a call includes both costs that are incurred only once per call (often called "setup" cost) and costs that continue to accrue for the duration (number of minutes of hold time) of the call. Historically, those two types of costs have been melded into a simpler per-minute cost, since prior to the growth of Internet access hold times were relatively stable. When Ameritech Illinois's reciprocal compensation end office switching rates were developed, the setup and duration costs were melded based on an assumed duration of just under 3-1/2 minutes per call. The result was a switching rate of $.003746, which includes the cost of call setup spread over each of the 3-1/2 minutes. Internet access calls, however, have an average duration of about 26 minutes per call, so applying the same rate to an Internet access call would result in recovery of the proper amount of duration cost but would recover over *seven times* the setup cost. Proper allocation of setup costs of $.009512 per message to an average hold time of 26 minutes (at an average duration cost of $.000967 per minute) would result in a rate of $.001333 per minute, which I recommend as the starting point for any transition. Another solution, of course, would be to simply apply a two-part rate structure consisting of separate per-call and per-minute rates to the ISP traffic. While this is a more elegant (and a more precisely accurate)

solution, I don't believe it is necessary in the context of a transition in which the rate will be quickly de-coupled from the costs in any case.

This cost issue, and others raised by Mr. Starkey in his testimony, are covered in detail in the testimony of Dr. Kent Currie on behalf of Ameritech Illinois.

Q. WHY SHOULD TANDEM SWITCHING AND TRANSPORT COSTS BE EXCLUDED FROM ANY ESTIMATE OF THE COST OF SWITCHING ISP TRAFFIC BY THE ISP'S LEC?

A. It makes no sense from any rational policy perspective to compensate a LEC serving an ISP for costs that it plainly does not incur. It is my understanding that when a CLEC provides connections to an ISP, the ISP is usually located in close proximity to the CLEC's switch location, and is often collocated at the CLEC's switch site. Clearly, under these circumstances it is unlikely that Focal is incurring more than the cost of a single switch in providing service to ISPs. To the extent that an ISP may be located more remotely from Focal's switch, Focal should recover any transport costs for those "local loop" facilities from its ISP customer, just as Ameritech Illinois or another ILEC would have to do under the same circumstances.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION AS TO DURATION OF ANY TRANSITION?

A. The transition should be no more than 12 months, given the speed with which telecommunications and the Internet are evolving. CLECs and ISPs have been on notice

for over two years already that the reciprocal compensation "gravy train" would come to the end of the line, as older interconnection agreements expire and are replaced with agreements incorporating a rational policy determination by regulators.

I believe that a reduction of the compensation rate on a quarterly basis would be appropriate, with 75% of the initial rate applicable in months 4-6, 50% of the initial rate applicable in months 7-9, and 25% of the initial rate applicable in months 10-12.

Q. COULD YOU PLEASE ELABORATE ON THE NEED FOR A CAP ON ANY COMPENSATION PAYMENTS FOR INTERNET ACCESS TRAFFIC ORIGINATED BY RESIDENTIAL CUSTOMERS?

A. A LEC serving a residential end user customer should be required to pay to another LEC serving the ISP used by that customer no more than one-half of the local usage revenues it receives from that customer for calls delivered to ISPs. LECs serving end users should not be required to pay out to LECs serving ISPs all of the revenues attributable to Internet access calls while retaining nothing to cover the costs of originating that traffic I believe that this further protection strikes a reasonable balance by allowing the end user's LEC to retain a portion of the usage revenues in order to cover some of its costs incurred in the origination of Internet access traffic. As I noted earlier, the revenues from a residential call already fall far short of covering even the origination costs of a typical Internet access call, and any transfer of a portion of those revenues to a carrier delivering those calls to an ISP simply makes the situation worse.

Q. IN HIS ANSWERS BEGINNING ON PAGES 35 AND 39 OF HIS TESTIMONY, MR. STARKEY SEEMS TO BE INDICATING HIS BELIEF THAT AMERITECH ILLINOIS HAS PUT IN PLACE AND MAINTAINED ITS EXISTING PER-CALL RATE STRUCTURE FOR LOCAL RESIDENTIAL CALLS ENTIRELY ON ITS OWN INITIATIVE. DO YOU AGREE?

A. No, I do not. The existing local residential rate structure was initially established in the mid-1980's as a result of a negotiated stipulation among numerous parties, including consumer groups and the Commission Staff. Both the Legislature and the Commission have in the past expressed some preference for the continuation of the existing rate structure and the availability of untimed local calling rates for consumers. I would expect Staff, in its filing on February 28, to address the extent to which it feels that the Commission has any interest in maintaining and supporting untimed local calling for residential customers in Illinois.

Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS ON THIS ISSUE?

A. This is the most critical issue currently open in the industry. It is admittedly a highly complex issue, in which many parties have an interest, and which could have a significant impact not only on the competitive marketplace for basic local telecommunications services, but for advanced telecom services and for the Internet as well. While the FCC has the jurisdictional authority in this matter, and has had a Rulemaking proceeding open for nearly a year now, a number of states (including Ohio, Wisconsin, and Texas) have established "generic" proceedings to explore this issue in a multi-party context more

suitable than a two-party arbitration proceeding. If it does nothing else in this arbitration, the Commission must ensure that it has the ability at any time to broadly explore and modify its policy regarding the compensation arrangements and/or the "retail" pricing policies applicable to Internet access traffic, and to implement those policy changes uniformly and simultaneously for all parts of the LEC industry (including ILECs, CLECs, and potentially wireless service providers). Care must be taken not to "lock in" any compensation arrangement or policy that is later determined to be contrary to the public interest, as well as to ensure that any orders or other policy directives by the FCC can be implemented in a timely fashion.

Issue 1: **For purposes of reciprocal compensation, should Focal be compensated for end office, tandem, and transport elements of termination for all local traffic terminated on its network, even if only a small minority of the calls actually terminate to customer premises that are more than a few miles distant from the Focal end office switch?**

Q. DESCRIBE YOUR UNDERSTANDING OF FOCAL'S POSITION ON ISSUE 1.

A. I understand Focal's position to be that for purposes of reciprocal compensation, Focal seeks compensation for end office, tandem, and transport elements of termination for all calls terminated on its network because Focal's switches each serve a geographic area comparable to the area served by Ameritech Illinois's tandem switch, and that payment of the "tandem interconnection rate" (as defined by Focal) in this situation is mandated by FCC Rule 47 CFR Section 51.711(a)(3).

Q. FOCAL CITES TO FCC RULE 47 CFR SECTION 51.711(A)(3) AS SUPPORTING ITS DEMANDS. HOW SHOULD THAT RULE BE PROPERLY INTERPRETED IN MAKING A FINDING ON THIS ISSUE?

A. First, it should be recognized that the FCC's Declaratory Ruling earlier this year established that ISP traffic is not local traffic, and that the FCC Rule cited by Focal applies only to local traffic, and not to ISP traffic. Regarding ISP traffic, this issue will properly be moot should the Commission agree with Ameritech Illinois's proposal that no inter-carrier compensation should be applicable to ISP traffic. But in any event, even if

the Commission were to determine that some level of compensation for ISP traffic is desirable on an interim basis, such compensation should not, as I discussed above in my testimony regarding Issue 2, include any recovery of purported "tandem" costs or transport costs, and there is no FCC Rule suggesting that such a result would be appropriate.

Q. HOW SHOULD THE FCC RULE BE PROPERLY INTERPRETED IN MAKING A FINDING ON THIS ISSUE REGARDING LOCAL TRAFFIC?

A. Regarding compensation for local traffic (i.e., non-ISP traffic), the FCC Rule should be interpreted with reference to the discussion of this subject in the body of the FCC's Local Competition order and also with reference to the overarching principle held by the FCC (and I believe also by this Commission) that compensation should be based on the cost incurred by the carrier, and that any compensation in excess of the cost incurred would be contrary to the public interest.

Q. WHAT DID THE FCC SAY IN THE BODY OF ITS LOCAL COMPETITION ORDER REGARDING THIS ISSUE?

A. The FCC addressed this issue in paragraph 1090 of its order, as follows:

> 1090. We find that the "additional costs" incurred by a LEC when transporting and terminating a call that originated on a competing carrier's network are likely to vary depending on whether tandem switching is involved. We, therefore, conclude that states may establish transport and termination rates in, the arbitration process that vary according to whether the traffic is routed through a tandem switch or directly to the end-office switch. In such event, states shall also consider whether new technologies

(e.g., fiber ring or wireless networks) *perform functions similar to those performed by an incumbent LEC's tandem switch* and thus, whether *some or all* calls terminating on the new entrant's network should be priced the same as the sum of transport and termination via the incumbent LEC's tandem switch. Where the interconnecting carrier's switch serves a geographic area comparable to that served by the incumbent LEC's tandem switch, the appropriate proxy for the interconnecting carrier's additional costs is the LEC tandem interconnection rate. [emphasis added]

As can be seen in the excerpt above, the FCC's ruling is based not simply on geographic coverage, but also on an analysis of functionality, and also contemplates that only some calls, rather than all calls, terminated on a CLEC's network may be eligible to be billed at a transport rate or a tandem switching rate in addition to an end office rate. I do not believe that the FCC established its rules with the intention of deliberately and systematically overcompensating CLECs, and its rules should be interpreted in a manner to give effect to the FCC's intent and the intent of the statute they are designed to implement.

Q. HOW SHOULD THIS ISSUE BE RESOLVED FOR NON-ISP (LOCAL) TRAFFIC?

A. Focal should not receive the rate for either the tandem or transport elements of termination unless the following conditions are satisfied:

(1) Focal proves that its switch currently serves a geographic area comparable to that served by Ameritech Illinois's tandem switch; and

(2) Focal proves that its switch performs the same functions on behalf of Ameritech Illinois that Ameritech Illinois's tandem switch performs.

As I explain below, satisfying this second condition requires a showing that Focal gives Ameritech Illinois the option to connect directly to Focal's end office function and thus avoid payment of the tandem rate (and perhaps also the transport rate) if it so chooses; and that Focal defines its switch and offers interconnection on a nondiscriminatory basis for both the termination of local traffic by other LECs and the termination of toll traffic by long distance interexchange carriers (IXCs).

Geographic Coverage

Q. HAS FOCAL PROVIDED ANY EVIDENCE REGARDING THE AMOUNT OF TRAFFIC THAT IS DELIVERED TO CUSTOMER PREMISES OUTSIDE OF WHAT WOULD GENERALLY BE CONSIDERED TO REPRESENT A TYPICAL LOCAL WIRE CENTER AREA FOR EACH OF FOCAL'S END OFFICE SWITCHES?

A. No, it has not. Ameritech Illinois requested such information in discovery, but Focal claimed to be unable to provide it. Any analysis of the extent to which Focal satisfies the standard set forth in the FCC's rule and order must begin with the requirement that Focal provide information on both the geographic distribution of the customers to which it delivers its services and the volume of traffic that is delivered to the various geographic areas. Both distribution and volume are important: if Focal serves only a few customers scattered widely over a geographic area but delivers the vast bulk of its traffic to customers located in close proximity to its switches, that would not in my view be a sufficient demonstration of the geographic area Focal "serves" to satisfy the standard.

The standard can only be satisfied if the distribution of traffic delivered throughout the geographic area is reasonably comparable to the distribution of traffic in Ameritech Illinois's tandem serving area. The distribution of customer access lines over the tandem serving area would be a reasonable proxy for the distribution of traffic on Ameritech Illinois's network. The FCC's Rules cannot reasonably be read to require the payment to Focal of tandem switching and transport rates on calls for which Focal actually provides no more transport than that of a typical local loop (the cost of which should be covered by the local service charges paid by Focal's end user customer) and for which Focal provides no switching functionality other than a single "trunk-to-line" end office switching function.

Any standard less stringent that a full demonstration of traffic distribution for each switch would simply be an open invitation to "gaming" the rules in search of an undeserved windfall by Focal and other CLECs. If Focal were to be paid tandem-based rates without actually incurring any tandem or transport costs, then Focal would be receiving a subsidy at the expense of Ameritech Illinois and its customers. Granting Focal such a subsidy would encourage Focal and other CLECs to design their networks based not on efficiency but rather on whatever arrangement generated the greatest subsidy.

Q. WOULD SUCH A DEMONSTRATION OF GEOGRAPHIC TRAFFIC DISTRIBUTION BE ADMINISTRATIVELY BURDENSOME FOR FOCAL?

A. I don't believe so. It is simply a matter of accumulating traffic data (which is already recorded by Focal for billing purposes) by NXX code, adjusting to properly recognize traffic to telephone numbers that are assigned to customers outside the normal rate center area for the NXX, and matching that traffic distribution with the distribution of Ameritech Illinois's customers over all of the rate centers in the tandem serving area. Ameritech Illinois's proposal would permit Focal to make such a demonstration at any time for each of its switches, with any dispute over the sufficiency of the demonstration to be resolved by the Commission.

The fact that Focal chose not to attempt to gather such information in response to Ameritech Illinois's discovery request indicates to me that Focal does not believe that the information would support Focal's position in this arbitration, i.e., that it would show that a very large percentage of traffic is delivered to customer premises in close proximity to the Focal switches.

Q. ON PAGE 19 OF HIS TESTIMONY, MR. BARNICLE OF FOCAL CLAIMS THAT "VOLUME OF TRAFFIC TO A RATE CENTER" IS NOT RELEVANT TO THIS ISSUE BECAUSE IT IS A MEASURE OF "MARKET PENETRATION" RATHER THAN OF GEOGRAPHIC COMPARABILITY. HOW DO YOU RESPOND?

A. Mr. Barnicle is incorrect and is misrepresenting the position of Ameritech Illinois regarding the appropriateness of traffic distribution data. Ameritech Illinois's proposal for the use of traffic distribution data does not look at either the absolute volume of traffic

or the volume of Focal's traffic in relation to Ameritech Illinois's traffic, either of which might conceivably be characterized as measures of market penetration. Ameritech proposes to look only at the relative geographic distribution of Focal's traffic entirely independent of the traffic of any carrier other than Focal itself. It does not matter whether the traffic volume is 10 million minutes per month or 100 million minutes per month; in either case, if 90% of that traffic is terminated at customer premises in close proximity to Focal's switches, then Focal cannot reasonably claim that for 100% of the traffic terminating on its network it incurs costs equivalent to Ameritech Illinois's tandem switching an transport costs in addition to the costs of end office switching.

Tandem Switching Function

Q. PLEASE BRIEFLY DESCRIBE THE FUNCTIONS OF TANDEM SWITCHES AND END OFFICE SWITCHES IN AMERITECH ILLINOIS'S NETWORK AND THE MANNER IN WHICH OTHER CARRIERS INTERCONNECT TO THOSE SWITCHES.

A. Ameritech Illinois's network consists of end office switches, which connect individual subscribers to Ameritech Illinois end offices, and tandem switches, which carry traffic between end offices (trunk-to-trunk connections) and do not directly serve subscribers.

The functions of tandem offices are therefore different than those of end offices directly connected to subscribers. Tandem offices also do not have to record end user billing information, supply electrical power to the equipment at the end of the line, or convert between analog and digital signals.

Ameritech Illinois gives Focal (and all other carriers) the option to interconnect to its network at both the tandem office switch and the end office switch. If Focal chooses to interconnect at the tandem office switch, then the tandem and transport rate elements apply in addition to the end office termination rate elements. If Focal chooses instead to interconnect at the end office switch, then only the end office termination rate elements apply. Similarly, FCC rules specify that a carrier can interconnect at the trunk side of the end office switch and/or the trunk side of a tandem switch. A CLEC has the choice to interconnect to either the end office or tandem office. Focal should give Ameritech Illinois this same choice.

Q. DOES AMERITECH HAVE SWITCHES THAT PERFORM BOTH A TANDEM AND AN END OFFICE FUNCTION?

A. Yes, Ameritech Illinois also has a few switches that serve as Class 4/5 switches, and that have both end office and tandem functionality, but the two functions are entirely separate. The switch is partitioned and the tandem portion of the switch carries only trunk-to-trunk traffic and is never used to switch a call to an end user. A call that is sent over a trunk to the tandem portion of the switch cannot be switched directly to an end user. It must first exit the tandem portion of the switch, proceed along a trunk that connects to another trunk termination on the end office portion of the switch, and there be switched again to the end user. Thus, Ameritech Illinois's dual-function switches operate no differently than would two separate switches located in the same central office building (an arrangement that exists for the majority of Ameritech Illinois's tandem switches), and

other carriers are afforded the option to connect directly to the end office function, bypassing the tandem function.

Q. HAS FOCAL PROVIDED ANY EVIDENCE THAT ITS SWITCHES ACTUALLY PERFORM A TANDEM SWITCHING FUNCTION WHEN HANDLING LOCAL TRAFFIC FORWARDED FROM AMERITECH'S NETWORK?

A. Focal has provided no such evidence whatsoever. Mr. Barnicle spends a number of pages (20-28) in his testimony purporting to discuss the issue of tandem functionality, but fails to provide any legitimate support for Focal's claim that it provides tandem functionality to Ameritech Illinois (or an other carrier).

Q. MR. BARNICLE STATES ON PAGE 23 OF HIS TESTIMONY THAT "THE CORE TANDEM FUNCTION IS THE AGGREGATION OF TRAFFIC BETWEEN CUSTOMERS CALLING OUTSIDE THEIR IMMEDIATE EXCHANGE." DO YOU AGREE?

A. Absolutely not. Tandem functionality is purely a network architecture issue and has absolutely no systematic relationship to whether or not traffic is between or within an "exchange" area. Tandem functionality is purely and simply trunk-to-trunk switching, that is, a switching operation that connects two network switches to each other. This is distinguished from end office functionality, which represents either line-to-line switching (i.e. connecting two end user premises to each other) or line-to-trunk switching (i.e. connecting an end user premises to a second switch –either a tandem or another end

office --for further routing of a call). Calls within an exchange may sometimes use tandem functionality (when there is more than one end office switch serving the exchange area), and calls that are inter-exchange often have no need for tandem functionality.

Q. IS "AGGREGATION" A FUNCTION UNIQUE TO TANDEM SWITCHING?

A. No. Aggregation is simply another way of describing what all switches do. The distinguishing characteristic that differentiates an end office from a tandem is not the function of "aggregation" (which is a function performed by both types of switch) but the distinction between what is aggregated at each type of switch. The primary function of an end office switch is to "aggregate" individual customer loops into a single switching fabric so that they may be connected either to each other or to trunks that act as gateways to other switches. The primary function of a tandem switch is to "aggregate" individual end office trunk groups into a single switching fabric so that they may be connected either to each other or to trunks that act as gateways to other tandem switches. Mr. Barnicle has presented absolutely no evidence that Focal's switches perform any more than the aggregation function typical of an end office switch (i.e. line-to-line switching and line-to-trunk switching).

Q. IS FOCAL'S NETWORK ARCHITECTURE SIGNIFICANTLY DIFFERENT FROM THAT OF AMERITECH ILLINOIS, AS MR. BARNICLE TRIES TO CLAIM?

A. No, it is not. The only difference between the two is that Focal's end office switches serve larger geographic areas and therefore some customers are served by very long loops. Focal's end office switches are no less dependent on their connections to Ameritech Illinois's tandems to provide ubiquitous connectivity to their end users than are Ameritech Illinois's end office switches.

Q. UNDER WHAT CIRCUMSTANCES WOULD IT BE PROPER FOR FOCAL TO CHARGE A TANDEM SWITCHING RATE TO AMERITECH ILLINOIS FOR TERMINATION OF A LOCAL CALL ON FOCAL'S NETWORK?

A. Ameritech Illinois should pay Focal for tandem switching if and only if (i) Focal first satisfies the geographic coverage test described above, and (ii) Focal's switch performs the same functions on behalf of Ameritech Illinois as those performed by Ameritech Illinois's tandem switch on behalf of Focal (i.e. trunk to trunk switching).

This parity of function must be demonstrated in at least two ways. First, Focal must demonstrate that Ameritech Illinois may, at its option, connect directly to Focal's end office switch function, thereby avoiding payment to Focal of the charges for tandem switching. Second, Focal must demonstrate that it offers interconnection, defines its switches, and applies charges for terminating traffic on a nondiscriminatory basis regardless of the identity of the interconnecting carrier or its designation as either a LEC or a long distance interexchange carrier (IXC). If Focal's switch provides only end office functionality for terminating long distance calls, it must also be providing only end office functionality for terminating local calls.

Only by demonstrating that it provides tandem functionality and confirming that fact by offering Ameritech Illinois (and other carriers on a nondiscriminatory basis) the ability to bypass the tandem functionality and connect directly to the end office functionality, should Focal be permitted to assess tandem switching charges for the termination of local traffic on its network. The ability to bypass the tandem "function" (and the associated charges) on a nondiscriminatory basis is the litmus test as to whether tandem functionality is in fact being provided. If the function cannot be bypassed, then the function is not being provided, costs are not incurred, and no charges should be assessed to other carriers. As I mentioned earlier, Ameritech Illinois does allow carriers to bypass its tandem switches in that manner.

Issue 4: **Focal's Virtual Office service and the need to establish POIs in a manner that properly allocates transport costs.**

Q. **PLEASE EXPLAIN YOUR UNDERSTANDING OF ISSUE 4.**

A. The issue here is whether Focal should be able to force Ameritech Illinois to transport calls to a point of interconnection ("POI") located outside the local calling area of the originating caller and yet treat that traffic as local traffic, even though the call is not truly a local call because Focal's end user customer is not actually located in the exchange area corresponding to the telephone number assigned to that customer by Focal.

The issue arises in the context of Foreign Exchange ("FX") services, including Focal's Virtual Office service. In general, FX service allows a customer to be assigned a

telephone number with an NXX code (the first three digits of a seven-digit telephone number) for a geographic area that is different from the FX customer's actual location. For example, a business customer in downtown Chicago might want to use a telephone number with an NXX assigned to Aurora so any of its employees in Aurora can call the business customer for the flat-rate price of a local call. The local rate applies because the call is treated by Ameritech Illinois' billing system as being within a single NXX, even though Ameritech Illinois may transport the call over a distance much greater than a true local call in order to reach the FX customer's location.

The problem is that, as a result of the manner in which Focal provides Virtual Office service, Ameritech Illinois is incurring uncompensated costs in transporting calls for Focal's Virtual Office customers outside the local calling area of the NXX assigned to that customer. This forces Ameritech Illinois to subsidize Focal and its customers with free transport (and sometimes switching).

Along with Dr. Debra Aron, I will explain the basis for Ameritech Illinois' position on this issue and show why it is consistent with federal law and sound regulatory policy. In particular, I will discuss why Focal should be required to establish POIs within Ameritech Illinois' local calling areas if it seeks to deliver calls outside of those areas. I will also explain how Focal's current provision of Virtual Office service improperly shifts transport costs to Ameritech Illinois and forces Ameritech Illinois to subsidize Focal's FX service. Ameritech Illinois' proposed contract Section 4.3.12 would help eliminate these anticompetitive effects without impeding Focal's ability to compete, and therefore should be adopted.

Q. HOW ARE NXXs ASSIGNED TO A SPECIFIC GEOGRAPHIC AREA?

A. The geographic locations associated with NXX prefixes are set forth in the Local Exchange Routing Guide ("LERG"). The LERG identifies vertical and horizontal ("V&H") coordinates (akin to latitude and longitude) that pinpoint the location of rating centers for particular prefixes. This rating center location generally corresponds to the geographic location of the incumbent LEC central office, switch, or point of presence that serves customers in the particular geographic area.

Q. PLEASE EXPLAIN HOW FOCAL'S PROVISION OF VIRTUAL OFFICE SERVICE FOISTS UNCOMPENSATED TRANSPORT COSTS ON AMERITECH ILLINOIS.

A. The problem results from the difference in how calls are transported, and who pays for the transport, depending on whether Ameritech Illinois or Focal provides the FX service. Perhaps the best way to explain it is through different scenarios:

Scenario 1: *The originating caller is an Ameritech Illinois local exchange customer and the called party is an Ameritech Illinois FX customer.* In this scenario, Ameritech Illinois provides all transport from the originating caller to the called party. The originating caller is billed for a local call, while the called party (the FX customer) pays a rate for FX service that compensates Ameritech Illinois for the network investment and other costs that Ameritech Illinois incurs in transporting the call outside the originating local calling area to the FX customer's location (which it recovers from its

FX service customer).

Scenario 2: *The originating caller is an Ameritech Illinois local exchange customer and the called party is a Focal Virtual Office customer.* In this scenario, Ameritech Illinois provides all transport from the originating caller to Focal's POI, and Focal then delivers the call to the Virtual Office customer. If Focal's POI is not within the same local calling area as the originating caller (*i.e.*, not within 15 miles of the rating point for the NXX assigned to the originating caller and the FX customer), Ameritech Illinois is forced to provide transport outside the local calling area, but with no chance of recovering its costs for such transport. Focal incurs no transport cost (and can presumably pass some or all of the savings on to its virtual office service customer).

This result is obviously unfair to Ameritech Illinois. The costs of transporting a call to a Virtual Office customer outside the local calling area of the originating NXX should be borne by Focal and its customer, as it is the Focal customer who has ordered the service by which others can make a toll call to it at local rates. If Focal and its customer are not required to bear those costs, Ameritech Illinois is effectively forced to subsidize Focal's Virtual Office service by providing free transport and, if the call traverses a tandem switch, free switching.

Q. YOU SAID THAT AMERITECH ILLINOIS RECOVERS TRANSPORT COSTS FROM ITS OWN FX CUSTOMERS THROUGH FX RATES. DOESN'T FOCAL DO THE SAME THING?

A. Focal may recover *its* costs, but that is beside the point. The important point is that, in those cases where Focal relies on Ameritech Illinois to provide the interexchange transport, there is no opportunity for Ameritech Illinois to recover the costs of the transport it provides to Focal. Thus, if Focal's POI is outside the originating caller's local calling area, it is Ameritech Illinois, not Focal or its Virtual Office customers, that bears the cost of transport and switching to carry the call from the originating NXX area to Focal's POI outside the caller's local calling area.

Q. DOES THE SAME INEQUITY EXIST WHEN A FOCAL LOCAL EXCHANGE CUSTOMER CALLS AN AMERITECH ILLINOIS FX CUSTOMER?

A. No. Because Ameritech Illinois offers Focal a POI at each of its switches, no cost recovery problem exists when a call is originated by a Focal customer, because it can be handed off to Ameritech Illinois at a POI within the caller's local calling area. In such cases, therefore, the costs of carriage outside the local calling area are borne by Ameritech Illinois and its FX customer, as they should be.

Q. HOW DOES AMERITECH ILLINOIS PROPOSE TO REMEDY THE TRANSPORT COST RECOVERY PROBLEM CAUSED BY FOCAL'S VIRTUAL OFFICE SERVICE?

A. Ameritech Illinois has proposed contract language that it believes will resolve, or at least minimize, many of the transport cost recovery problems created by Focal's Virtual Office service. This language would require Focal to maintain a POI within 15 miles of the rating center for any NXX that Focal uses for Virtual Office service. This would ensure that Ameritech Illinois is not forced to transport a call to Focal's Virtual Office customers over a distance greater than 15 miles (the size of the caller's local calling area) and thus would no longer subsidize Focal with free transport (and in some cases, switching) of interexchange toll calls:

> **4.3.12.** If Requesting Carrier uses an NXX code to provide foreign exchange service to its Customers outside the geographic area assigned to such code, Requesting Carrier shall provide a point of interconnection (POI) within 15 miles of the rating point to which the NXX code is assigned, at which Ameritech may terminate local traffic destined for that NXX code.

Q. IS THIS THE SAME CONTRACT LANGUAGE ORIGINALLY PROPOSED BY AMERITECH ILLINOIS AND ADDRESSED IN FOCAL'S PETITION AND DIRECT TESTIMONY?

A. No. Ameritech Illinois initially proposed different language that was intended to promote the same result. After internal discussion and discussions with Focal, Ameritech Illinois determined that the language quoted above more appropriately addressed the issue.

Ameritech Illinois proposed this new language to Focal on February 3, 2000.

Q. WHY DID AMERITECH ILLINOIS CHOOSE 15 MILES AS THE APPROPRIATE LIMITATION ON ITS PROVISION OF TRANSPORT FOR VIRTUAL OFFICE CALLS?

A. The 15 mile limitation was chosen because it represents a distinction that has been established by the Commission. The Commission has established the 15 mile point as the distinction between local exchange calls which are considered part of an end user's basic service and toll calls which are not part of the basic service and may be presubscribed to any long distance carrier of the customer's choosing. Therefore, the 15 mile distinction reflects a basic policy pronouncement on the part of the Commission to distinguish between local exchange calls and toll calls.

Q. FOCAL'S WITNESS ON THIS ISSUE, MR. TATAK, CONTENDS THAT THERE IS NO DIFFERENCE BETWEEN FOCAL'S FX SERVICES, SUCH AS VIRTUAL OFFICE, AND AMERITECH ILLINOIS' FX SERVICES. PLEASE COMMENT.

A. The services may be similar in a broad sense, but the critical difference is how each carrier transports calls to an FX customer. Ameritech Illinois uses its own network for all transport and ultimately recovers its transport costs through FX service rates. Focal, on the other hand, often uses *Ameritech Illinois'* transport for some portion of its FX service beyond the originating local calling area, but does not compensate Ameritech Illinois for that transport. Indeed, Mr. Tatak acknowledges that, under Focal's approach, a carrier

could have a POI that is "clear across the MSA" from the originating local calling area. (Tatak Statement at 11). If such a carrier provided FX service for an NXX geographic area "clear across the MSA" from its POI, Ameritech Illinois would be forced to transport the call clear across the MSA, with no cost recovery.

Mr. Tatak also claims that Ameritech Illinois' OmniPresence Service is indistinguishable from Focal's Virtual Office. While there are some operational similarities between the two services, there are also critical differences. OmniPresence was designed to enable information and enhanced service providers, such as ISPs, to obtain a virtual presence in multiple communities. It allows these providers to receive calls made to a variety of telephone numbers throughout the LATA, which are delivered to a centralized hub for a fixed monthly rate per line/trunk and member/channel based on CCS (a timed rate in hundred call seconds). Under either service, a residential caller to the customer would be charged at the Band A rate of $0.052 per call, even if the call physically were a Band B or Band C toll call. While Virtual Office mimics OmniPresence in this respect, it is important to recognize that Focal uses *Ameritech Illinois'* existing interoffice facilities to a significant extent to transport Virtual Office calls, rather than supplying its own facilities to provide this interexchange transport, yet pays Ameritech Illinois nothing for such transport. Thus, the key difference is clear. Ameritech Illinois provides and pays for the facilities that it uses to offer its OmniPresence service and incorporates the costs that it incurs to aggregate, switch, and transport OmniPresence calls into the rates it charges the OmniPresence customer. In contrast, the manner in which Focal currently provides its Virtual Office service enables

it to avoid a significant portion of these costs and, instead, to foist them onto Ameritech Illinois.

Q. MR. TATAK ALSO ASSERTS THAT AMERITECH ILLINOIS' POSITION IS "MISDIRECTED" BECAUSE "FEDERAL LAW PERMITS CLECS TO ESTABLISH A SINGLE POI IF THEY SO CHOOSE." (TATAK STATEMENT AT 12). DO YOU HAVE ANY RESPONSE?

A. Yes. Even if Mr. Tatak were correct on this point, that does not eliminate the problem of uncompensated costs and economic distortion caused by allowing CLECs that provide FX service to take a free ride on Ameritech Illinois' transport network. Moreover, I disagree with Mr. Tatak. Congress surely did not intend that carriers could obtain use of an incumbent LEC's entire *interexchange* network through a single POI as if that entire network were but a single local exchange, or that carriers would be able to use their single POI as a means of unfairly shifting network costs to the incumbent LEC.

Q. DOES AMERITECH ILLINOIS' PROPOSAL IN ANY WAY IMPEDE FOCAL'S ABILITY TO PROVIDE FX SERVICE OR TO USE ITS NXXS AS IT CHOOSES?

A. No. Focal can still provide FX service wherever and to whomever it likes. Ameritech Illinois' proposed contract language would simply prevent Focal from abusing that service to take a free ride on Ameritech Illinois' transport network and impose unwarranted costs on Ameritech Illinois. Ameritech Illinois is not "dictat[ing] network configurations" as Mr. Tatak claims (at 13). Rather, it is ensuring that costs of service

are properly allocated to and borne by the carrier who benefits from that service. Since FX service by its very nature prevents Ameritech Illinois' billing systems from accurately recording which calls travel to other carriers' FX customers (whose identities are unknown to Ameritech Illinois), Ameritech Illinois has elected to remedy the problem another way, by eliminating the possibility that FX could be used by requesting carriers to game the system. Moreover, if Focal wants to provide Virtual Office service using a particular NXX, Focal is free to decide where it wants to have a POI anywhere on Ameritech Illinois' network within the 15-mile local calling area associated with that NXX's rate center.

Q. MR TATAK CLAIMS THAT AMERITECH ILLINOIS IS EFFECTIVELY FORCING FOCAL TO DUPLICATE AMERITECH ILLINOIS' NETWORK. (TATAK STATEMENT AT 12). DO YOU AGREE?

A. No. The proposed contract language applies only to NXX areas that Focal wants to use for its Virtual Office, not to every NXX area in Ameritech Illinois' service area. Furthermore, because the proposed contract language is based on mileage, Focal would be able to provide FX service in multiple NXXs from a single POI.

Q. MR. TATAK (AT 16-17) ALSO CONTENDS THAT AMERITECH ILLINOIS' PROPOSAL IS NOT REQUIRED BY THE EXISTING CO CODE GUIDELINES. PLEASE RESPOND.

A. The CO Guidelines are not relevant here, as they do not address this issue.

Q. MR. TATAK REPEATEDLY CLAIMS THAT AMERITECH ILLINOIS IS TRYING TO AVOID COMPETITION WITH FOCAL AND OTHER FX SERVICE PROVIDERS. IS THAT CORRECT?

A. Absolutely not. Ameritech Illinois welcomes competition form any and all carriers, But such competition must be fair and promote the public interest; it should not be an exercise in gaming the regulatory system to shift transport costs to the incumbent. Ameritech Illinois should not be forced to transport Virtual Office FX-type calls more than the maximum distance of a Band A or Band B call. Focal should not be permitted a free ride on Ameritech Illinois' network. The best way to prevent such a free ride, while still giving Focal every opportunity to provide its Virtual Office service and use its NXX codes as it likes is to adopt Ameritech Illinois' proposed contract language.

Q. PLEASE SUMMARIZE AMERITECH ILLINOIS' POSITION ON ISSUE 4.

A. Focal's provision of FX service, at present, imposes uncompensated costs on Ameritech Illinois because Ameritech Illinois must transport calls to Focal's FX customers beyond the originating caller's local calling area. Ameritech Illinois should not be required to provide such transport free of charge, and requiring it to do so forces it to subsidize Focal's competing service. Ameritech Illinois seeks to avoid this arbitrage problem, and the economic distortions it creates, by requiring Focal to maintain a POI within 15 miles of the rating center for any NXX for which it provides FX service. This proposal simply ensures that costs are properly allocated to the appropriate carrier.

Q. DOES THIS CONCLUDE YOUR VERIFIED STATEMENT?

A. Yes.